Q. Please state your name.

A. My name is A. Robert Lasich.

Q. Are you the same A. Robert Lasich who has testified previously in this case?

A. Yes I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to:

1. Rebut the testimony of Utah Division of Public Utilities ("DPU") witness Mr. Michael J. McGarry regarding DPU's proposed disallowance of the Company's Fuel Stock in the amount of $57,097,424;

2. Agree with the testimony of UAE Intervention Group ("UAE") witness Mr. Kevin C. Higgins that the Company's forecast for the High Plains wind-powered generation resource ("High Plains project") of $236.4 million should be used for ratemaking purposes;

3. Agree with the testimony of Division of Public Utilities ("DPU") witness Ms. Joni S. Zenger that a cost of $59.2 million for the McFadden Ridge I wind-powered generation resource ("McFadden Ridge I project") should be used for ratemaking purposes;

4. Agree with the testimony of DPU witness Ms. Zenger that the McFadden Ridge I project is a prudent investment;

5. Rebut the testimony of DPU witness Ms. Zenger regarding the DPU's position that all future wind projects should have disallowance associated with estimated contingency costs; and

6. Rebut the testimony of DPU witness Mr. Charles E. Peterson regarding

the DPU's proposed disallowance for the Rolling Hills wind-powered generation resource ("Rolling Hills project") of $9,083,448 and for the High Plains project of $21,103,448 (adjusted downward to $16,233,422 for the number of months in the test year).

Reply to DPU Witness Mr. McGarry

Q. Please summarize the adjustment that DPU witness Mr. McGarry recommends in regards to fuel stock.

A. Mr. McGarry proposes to adjust the coal inventory level for the Utah plants from 185 days burn inventory level to 85 days based on his interpretation of the Company's Inventory Policy ("Inventory Policy").

Q. How long has the Inventory Policy been in effect?

A. The Company's Inventory Policy was developed over fifteen years ago. The Company established long-range inventory targets for the Company's coal plants. These policies are reviewed and updated periodically to incorporate factors such as potential supply interruptions, coal quality, market conditions, etc. The last update was prepared earlier this summer and provided in response to a data request from the DPU. (See Confidential Attachment DPU 26.4).

Q. Do you agree with Mr. McGarry's calculation of the days of coal inventory for the Utah plants and his interpretation of the Company's Inventory Policy?

A. No. Mr. McGarry's analysis and interpretation of the Company's Inventory Policy is flawed.

Q. Does the Company agree with DPU witness Mr. McGarry that an adjustment to the Company's fuel stock is warranted?

A. No. The Company does not believe any adjustment is appropriate. Mr. McGarry's adjustment is premised on an incorrect interpretation of the Company's Inventory Policy for the Utah plants. Mr. McGarry states "[t]he Company policy is to limit coal inventory to no more than 90 days and in most cases much shorter." Mr. McGarry also claims that "[t]his level of inventory is more than double what the Company has stated is its inventory strategy for these Utah plants…." Neither of these statements is accurate.

Q. What is the Company's Inventory Policy for the Utah plants?

A. While the Company has established a range of 60 - 90 days as the inventory target for the Utah plants, the Inventory Policy expressly contemplates increasing inventory levels beyond the 90 days if the Company can procure coal at below-market prices. Specifically, the Company policy states "similarly to the [redacted] [tons] of additional coal acquired from Arch pursuant to the Electric Lake settlement, if there are future opportunities to procure Utah coal at below-market (distressed prices), the Fuels Department is prepared to pursue such purchases. There is sufficient storage capacity between the Utah Plants and the Prep Plant to store over 4 million tons of coal." (See Confidential DPU 26.4).

Q. **What is the Electric Lake settlement?**

A. Canyon Fuels Company, L.L.C., a wholly owned subsidiary of Arch Coal Inc., owns the Skyline Mine which is located near Electric Lake, the Huntington Plant's water source. The Company claimed that Skyline's mining operations

caused water to drain from Electric Lake into the Skyline Mine, which placed the Huntington Plant operations at risk. The Company incurred costs associated with the loss of water from Electric Lake, primarily costs to pump the water from Skyline Mine back to Electric Lake. In February 2008, the Company reached a settlement with Arch thereby avoiding protracted and expensive complex litigation with one of the Company's key vendors. As a condition of the settlement, Arch Coal Sales Company ("Arch"), as agent for Canyon Fuels Company, L.L.C., agreed to sell the Company [redacted] tons of Utah coal at below market prices.

Q. What coal supplies were obtained through the Electric Lake settlement?

A. The Company acquired [redacted] tons of both [redacted] and [redacted] coal from 2008 through 2010. The Carbon Plant benefits from the supply of low ash, low sulfur coal from Canyon Fuels Company's [redacted] Mine. The Huntington and Hunter Plants benefit from high ash fusion temperature [redacted] coal. [redacted] coal is critical to ensuring a consistent coal quality for the Hunter and Huntington Plants and mitigates boiler slagging caused by consumption of low ash fusion temperature coals.

Q. How do customers benefit from the settlement?

A. The [redacted] and [redacted] coals are both premium coals (*i.e.* low ash and low sulfur). Both coals will contribute to optimal plant performance. Second, customers benefit from the low cost of inventory. The ability to store the Electric Lake settlement coal will allow the Company to avoid purchasing much higher market priced coal in the future. The average test period coal price of the Electric

Lake settlement coal, inclusive of the deferred asset amortization, is $[redacted] per ton. Utah coal is currently being transacted for $46 per ton and prices are projected to increase. Based on current market conditions, the value to our customers of the Electric Lake settlement coal is approximately $21 million.

Q. Is the increase in Utah inventories due solely to the coal acquired under the Electric Lake settlement?

A. No. The Company also entered into an agreement with West Ridge Resources in 2008 to purchase 275,000 tons of coal from the West Ridge Mine at below-market prices from 2008 through 2010. The average West Ridge coal price over the term of the agreement is $[redacted] per ton.

Q. Are both the Electric Lake and West Ridge agreements consistent with the Company's Inventory Policy?

A. Yes. In both situations, the Company pursued transactions that benefit customers despite the impact of increasing inventories.

Q. Did Mr. McGarry consider the benefits the Company's customers are receiving from the coal purchased under either the Electric Lake settlement or the West Ridge agreement?

A. No. Mr. McGarry states "…without getting into the merits of the Arch Electric Lake settlement, I believe that is in inappropriate for the Company to expect customers to pay for an investment in a coal inventory stockpile that it does not need." Mr. McGarry does not even address the West Ridge agreement.

Q. When does the Company project inventory levels will decrease?

A. There are no plans to reduce Utah plant inventory levels below test year levels. In

fact, inventory levels are projected to continue to increase through 2011. Both Arch, under the Electric Lake settlement, and West Ridge are contracted to provide coal through December 2010.

Q. Is there any indication of a major supply disruption that warrants the increase in coal inventories?

A. Mr. McGarry fails to realize that almost all of the coal production in Utah is dependent upon five longwall mining operations. Several of the low ash, low sulfur coal mines will fully deplete their reserves over the next five years. Underground mining is challenged with maturing mining operations, increasing depth of cover, excess gases, narrowing seams, etc. All these factors contribute to increase the risk of supply interruptions. The level of increased state and federal regulatory activity, particularly since the unfortunate Crandall Canyon disaster, is evidence of this increased risk. The Company expects the potential of a major supply disruption to increase in the future with the increasingly adverse mining conditions associated with mining at greater depths. To date, the Company has successfully mitigated its supply risk through diversification of its supply arrangements. However, these supply arrangements expire at the end of 2010. The Company's risk of a major supply disruption will increase after 2010 as the Company's supply options diminish.

Q. Notwithstanding the Company's position that no adjustment is warranted, are there additional problems with Mr. McGarry's recommendations?

A. Yes. Mr. McGarry's calculations have numerous errors.

Q. Please explain the errors in Mr. McGarry's calculation?

A. Mr. McGarry incorrectly utilized a 13 month average of inventory balances rather than the beginning and ending inventory balances for the test period. Averaging of the beginning and ending balances is consistent with the Company's overall treatment of miscellaneous ratebase items. The average inventory balance for the Utah plants should be 3,847,917 tons and $105,767,948 not 3,861,881 tons and $105,893,759. Next, Mr. McGarry utilized incorrect figures for 2008 consumed tonnage and failed to include tonnage consumed by the Hunter Plant joint owners. The actual consumption for the Utah plants, including the joint owner portion, was 8,313,534 tons rather than 7,641,694 tons. Mr. McGarry overstates the days of inventory when he includes one-hundred percent of the Hunter Plant fuel stock balances (dollars and tons) but excludes the Hunter Plant joint owner portion of consumed tonnage.

Q. Are there any additional errors in Mr. McGarry's days of inventory calculation?

A. Yes. Mr. McGarry's days of inventory analysis fails to exclude the 334,309 tons of high ash coal that is currently located at the prep plant. This high ash coal resides in a segregated area at the prep plant. This coal was mined by the Company's Deer Creek Mine as part of the development of the Mill Fork reserve tract. Rather than transport the coal to a refuse pile, the Company was able to stockpile the coal, which allows for future blending and reduced Deer Creek Mine costs. As the Company explained in its Inventory Policy, "…this coal will be utilized in future blending as its high ash fusion temperature will mitigate lower

ash fusion temperatures coals." (See DPU 26.4). This coal is excluded from the Company's fueling plans since the coal cannot be consumed by any of the Company's Utah plants on a stand-alone basis nor constitutes "inventory" that can be readily consumed by the plants during a supply interruption period. This tonnage should have been excluded by Mr. McGarry in his analysis.

Q. Please summarize the errors in Mr. McGarry's calculation of days of inventory.

A. Had Mr. McGarry used (i) the average of the beginning and ending inventory balances, (ii) actual 2008 tonnage and (iii) excluded the high ash coal pile, the number of days of coal inventory would be 154, not 185 days. (See Exhibit RMP___(ARL-1R)).

Q. How does Mr. McGarry's interpretation of the Company's Inventory Policy impact his proposed disallowance of the Company's fuel stock?

A. Mr. McGarry determined the amount of excessive inventory by comparing days of inventory to the Company's inventory target as guided by the Company's Inventory Policy. Mr. McGarry arbitrarily selected 85 days as his reference target rather than the 90 days identified in the Inventory Policy.

Q. How do the corrections of these errors impact Mr. McGarry's proposed adjustment?

A. Mr. McGarry's proposed adjustment of $57,097,424 on a total company basis would decline to $41,216,175 based on 154 days of inventory assuming 90 days is the maximum acceptable inventory limit. (See Exhibit RMP___(ARL-1R)).

Q. Please summarize the Company's position regarding DPU witness Mr. McGarry's proposed disallowance of the Company's fuel stock.

A. The Company's position is that the Commission should outright reject the DPU's proposed $57,097,424 disallowance. Mr. McGarry has made several errors in his calculation of the Company's inventory balance for the Utah plants, has incorrectly interpreted and applied the Company's Inventory Policy, and has arbitrarily adjusted inventory levels without considering the economic benefits the Company's customers receive from either the Electric Lake settlement or the West Ridge agreement.

Reply to UAE Witness Mr. Higgins

Q. Briefly explain UAE's proposed adjustment for the High Plains project.

A. UAE proposes to adjust the cost of the High Plains project to equal the forecast provided by the Company in response to DPU 42.6. In response to DPU 42.6, the Company forecasts the cost of the High Plains project to be $236.4 million, approximately 3.7 percent ($9.1 million) lower than the originally anticipated cost of $245.5 million.

Q. Do you agree with the proposed adjustment?

A. The Company agrees that its response to DPU 42.6 is a more up to date forecast than that originally included in the Company's filing and, therefore, should be used. The Company disagrees with Mr. Higgins' characterization that it is an "adjustment" to the High Plains project.

Q. Mr. Higgins references $5.5 million in unused contingency costs as being a portion of the $9.1 million cost reduction reflected in DPU 42.6. What is the Company's position toward estimated contingency costs when setting rates using a forward test period?

A. Including contingency as part of project planning and project cost is prudent and consistent with standard industry and construction practice. It is the Company's position, given that including contingency costs is a standard and reasonable construction practice, that estimated contingency costs are valid costs when setting rates using a forward test period.

Q. Why is the Company agreeing to revise the estimated total cost for the High Plains project such that the estimate no longer includes contingency?

A. The High Plains project has been placed in-service and, as such, the Company is comfortable that its current forecast is sufficiently close to the actual project costs the Company will incur. If the wind project was not already in-service, or there were material questions as to an estimate of final costs, the Company's forecast would include estimated contingency costs. Accordingly, the Company's position is that those estimated contingency amounts are prudent and valid costs to include when setting rates where a forward looking test period is concerned, excepting where estimated final project costs are better known such as in this case.

Q. Does UAE raise any issues of prudence associated with the High Plains project?

A. No.

Reply to DPU Witness Ms. Zenger

Q. Please briefly describe the adjustment proposed by Ms. Zenger for the McFadden Ridge I project.

A. Ms. Zenger proposes to reduce the level of capital cost associated with the McFadden Ridge I project by $1.1 million, an amount Ms. Zenger associates with the Company's estimated contingency for the project. Ms. Zenger then takes the position that all future wind projects should have disallowance associated with estimated contingency costs.

Q. Do you agree with the proposed adjustment?

A. The Company agrees that an amount equal to the most recent forecast provided in response to DPU 29.24 ($60.3 million) less estimated contingency costs of approximately $1.1 million is a reasonable estimate of final project costs given the current status of the McFadden Ridge I project. On this basis, the Company agrees with the DPU that an appropriate amount to be placed in rates for the McFadden Ridge I project should be $59.2 million ($60.3 million - $1.1 million). Similar to my testimony in response to UAE witness Mr. Higgins, the Company disagrees with DPU witness Zenger's characterization that such a change to the estimated capital costs of the McFadden Ridges I project is an "adjustment." The change to the estimated capital costs of the McFadden Ridge I project capital costs is a result of timing of adjusting the previously forecasted project costs to the current forecast now that the project has been placed in service.

Q. What is the Company's position toward estimated contingency costs when setting rates using a forward test period?

A. As stated above, the Company's position is that estimated contingency costs are reasonable and prudent and consistent with standard industry and construction practice, therefore, project contingency costs are valid costs when setting rates using a forward test period.

Q. Why is the Company agreeing to use an amount for the McFadden Ridge I project that no longer includes estimated contingency?

A. The McFadden Ridge I project has been placed in-service and, as such, the Company has reviewed and taken into account the majority of the project costs and believes $59.2 million is sufficiently close to the actual costs the Company will incur. If the wind project was not already in-service, or there were material questions as to an estimate of final costs, the Company's forecast would include estimated contingency costs and, accordingly, the Company's position would be that those estimated contingency amounts are prudent and valid costs to include when setting rates where a forward looking test period is concerned.

Q. Please explain how contingency is used in estimating costs of a project.

A. Contingency is an integral part of project estimating, planning and forecasting and is a valid and prudent expense for inclusion in rates when forward looking test years are involved.

Q. Do you agree with Ms. Zenger's claim that wind projects are "basically turn-key" projects?

A. No. I disagree with Ms. Zenger's statement that wind projects are "basically turn-

key" projects. Each wind construction project has the potential to incur unexpected costs. The fact that the majority of a wind project's costs is primarily spread over the turbine supply and construction agreements does not mitigate all the risk that there will be unforeseen circumstances or events that can impact a wind construction project's cost and/or schedule. Accounting for contingency dollars as part of the overall wind construction project costs is a reasonable and standard construction practice that constitutes a prudent industry practice to predict and address unknown costs. Contingency costs are certainly not "speculative" as Ms. Zenger claims.

Q. What evidence does the Company have to demonstrate that accounting for contingency dollars is a reasonable and standard construction practice that constitutes a prudent industry practice?

A. Accounting for contingency dollars is a reasonable and standard construction practice that constitutes a prudent industry practice because a number of functional organizations recommend the use of including contingency in establishing project estimates.

Q. What functional organizations are you referring to?

A. Two examples include the Association for the Advancement of Cost Engineering ("AACE") and the Project Management Institute ("PMI").

Q. Is the Company's practice with respect to estimating contingency consistent with that put forth by AACE and PMI?

A. Yes.

Q. Does federal law establish that contingency is part of eligible project costs?

A. Yes. Part 80 of Title 49 of the Code of Federal Regulations states:

> Eligible project costs mean amounts substantially all of which are paid by, or for the account of, an obligor in connection with a project, including the cost of:
>
> (1) Development phase activities, including planning, feasibility analysis, revenue forecasting, environmental review, permitting, preliminary engineering and design work, and other pre-construction activities;
>
> (2) Construction, reconstruction, rehabilitation, replacement, and acquisition of real property (including land related to the project and improvements to land), environmental mitigation, *construction contingencies*, and acquisition of equipment; and
>
> (3) Capitalized interest necessary to meet market requirements, reasonably required reserve funds, capital issuance expenses, and other carrying costs during construction.
>
> (emphasis added)

Q. Are contingency costs included in contracts?

A. No. Ms. Zenger's inference that contingency costs are included in contracts is incorrect. Contingency costs are not included in contracts because they are unknown, and therefore, contingency costs are not negotiated as part of the contract. The Company clarified this fact in association with the McFadden Ridge I turbine supply agreement and the McFadden Ridge I balance of plant construction agreement in response to DPU 51.2 and DPU 51.3. (See Exhibit RMP___(ARL-2R)).

Q. Does the Company agree with the DPU that the McFadden Ridge I project meets the prudence standard?

A. Yes. The Company's agrees with DPU witness Ms. Zenger that the McFadden

Ridge I project is a prudent investment.

Q. What prudence standard does Ms. Zenger articulate in her testimony?

A. Ms. Zenger describes a prudence standard based on reasonableness, as informed by prudent industry practice. This is the standard that the DPU used to determine that the McFadden Ridge I project is a "prudent investment."

Q. Does a prudence standard based on reasonableness, as informed by prudent industry practices, mean that the action of the utility must be optimal?

A. No. As Ms. Zenger points out in her testimony:

> "*….the Company's decision to pursue the project did not have to be the optimal choice, but rather reasonable and consistent with prudent industry standards at the time the Company had information that was available.*" (emphasis added)

Q. How does the DPU describe prudent industry practice?

A. In her testimony, Ms. Zenger describes prudent industry practices as:

> "*Prudent industry practices include those practices, methods, standards and acts (including those engaged in or approved by a significant portion of the power industry for similar facilities in the United States) that, at a particular time, in the exercise of good judgment, would have been expected to accomplish the desired result in a manner consistent with applicable laws, safety, environmental protection, economy and expedition.*"

Q. What conclusion does the DPU reach with respect to the McFadden Ridge I project and prudent industry practices?

A. Ms. Zenger testifies that "*[the] Company considered the relevant factors in its justification for the McFadden project, which the Division reviewed and found that the decision making process was prudent.*"

Q. Do you have any further comments regarding Ms. Zenger's testimony?

A. Yes. Ms. Zenger makes several statements concerning past renewable resource acquisitions with which the Company does not agree. Ms. Zenger ultimately makes four general recommendations to the Commission. In part, my testimony responds to each of these four general recommendations.

Q. Ms. Zenger states that the Company should consider looking at diverse wind characteristics going forward in the acquisition of its wind portfolio. How does the Company respond to this recommendation?

A. The Company inherently looks for diverse wind resources and diverse resources types, through its Integrated Resource Planning ("IRP") process, its request for proposal ("RFP") acquisition process, or through the process of directly acquiring resources. With each individual resource acquisition decision, the Company takes diversity into account by examining alternatives and economic valuation techniques that determine value based on the location of the resource, the diurnal production characteristics of the resource, and other resource-specific attributes.

Q. Ms. Zenger states that the Company should be required to submit a notification letter to the Commission at the time each wind plant comes in service. How does the Company respond to this second recommendation?

A. As a matter of policy, the Commission should not require a notification letter each time the Company places a capital asset in-service. The volume of notifications would be burdensome on the Company and the Commission staff. The Company provides the Commission and DPU with routine business updates, and as a matter of course and regular business practice, the Company informs the Commission and DPU regarding the status of wind project construction, to the extent any is under way. Should there be a question to the Company's current activities as it relates to wind projects, the DPU simply needs to ask the Company. The Company has always been willing to provide the DPU with an update during any one of the many meetings that routinely takes place between the DPU and the Company.

Q. Ms. Zenger states that the Commission should review the Company's strategy of building 99 MW wind farms adjacent to each other as separate projects in order to avoid the solicitation process required in Oregon for major resource additions. How does the Company respond to this third recommendation by the DPU?

A. The Company does not agree it has a "strategy of building 99 MW wind projects." The Company's strategy is to add supply-side resources in an economic fashion. As such, the Company steadfastly contends that the addition of 99 megawatt ("MW") wind-powered generation resources has been prudent and in

customers' best interest. Following completion of the rate case, the Company is willing to meet with the DPU to help them further understand the Company's strategy with respect resource acquisition decisions and the circumstances that led the company to pursue each and every wind resource in its portfolio, regardless of size.

Q. Ms. Zenger states that the Company needs to report detailed accounting of its capital wind projects rather than lump sum capital costs in order for the DPU to complete a full prudence review of future wind projects. How does the Company respond to this fourth recommendation by the DPU?

A. The Company has provided sufficient detail for the DPU to complete a full prudence review of resource economics associated with wind-powered generation resources. For example, the Company provided detailed costs in response to DPU 23.10 and DPU 49.6. Following completion of the rate case, the Company is willing to meet with the DPU to address any issues relative to the information provided for purposes of reviewing the evaluated cost of energy associated with the Company's owned and contracted wind resource acquisitions. As a matter of practice, the Company judges each new resource based on its overall cost of energy, not solely based on construction cost.

Q. Are the four general recommendations that Ms. Zenger makes to the Commission relevant to this proceeding.

A. No.

Q. Please summarize the Company's position toward the DPU's position that all future wind projects should have disallowance associated with estimated contingency costs.

A. The Company strongly disagrees with the Division's position. As my testimony demonstrates, accounting for contingency dollars is a reasonable and standard construction practice that constitutes a prudent industry practice to predict and address unknown costs. Estimated contingency costs are valid costs when setting rates using a forward test period.

Reply to DPU Witness Mr. Peterson

Q. Please provide an overview of the adjustment to the Rolling Hills project and the High Plains project.

A. DPU witness Mr. Peterson proposes a disallowance for the Rolling Hills project of $9,083,448 and for the High Plains project of $21,103,448.

Q. Please describe the analysis that Mr. Peterson uses to determine his proposed disallowance.

A. Mr. Peterson adjusts the cost of the Rolling Hills and High Plains projects, on a cost per kW basis, to equal the weighted average cost per kilowatt ("kW") of the Glenrock III, Seven Mile Hill II, and McFadden Ridge I projects. (See Confidential Exhibit RMP___(ARL-3R)).

Q. Do you agree with Mr. Peterson's analysis for DPU's proposed adjustments?

A. No. Mr. Peterson's analysis is flawed because it is based on an incorrect premise that every wind project that is larger than another wind project should have economies of scale that should make a larger wind project less expensive on a

cost per kW basis than a smaller wind project.

Q. Which wind projects are specifically being referred to by Mr. Peterson?

A. Mr. Peterson is specifically referring to the Glenrock III, Seven Mile Hill II, and McFadden Ridge I projects as "small" wind projects whereas Mr. Peterson views the Rolling Hills and High Plains projects as "large" wind projects.

Q. Why is Mr. Peterson's economy of scale theory flawed?

A. Mr. Peterson's theory that there should be economies of scale for larger projects, when compared to smaller projects located in the same geographical location, is flawed because it ignores information the Company provided the DPU regarding infrastructure advantages the smaller projects enjoy that makes a cost per kW analysis misleading.

Q. Mr. Peterson asserts that the DPU's data requests provided little insight as to why the costs per kW for a large project should be higher than that of a small project. How does the Company respond to this?

A. Through its response to DPU 4.12, the Company provided the internal approval documents for Glenrock III, Seven Mile Hill II, and McFadden Ridge I projects. In those approval documents, the Company documents that each project is taking advantage of infrastructure being put in place for a nearby larger project. As a result of these infrastructure advantages, the cost per kW for the smaller projects is lower than that of the larger projects.

Q. Was this infrastructure advantage understood by the DPU?

A. Yes. DPU witness Ms. Zenger testified that the Company took advantage of economies of scale when it built smaller projects at the Seven Mile Hill,

Glenrock, and High Plains sites. The economies of scale referenced in Ms. Zenger's testimony include previously constructed interconnection facilities, collector substations, roads, and operations and maintenance buildings.

Q. Has the Company provided detailed cost information to the DPU indicating the relative infrastructure costs savings that provide benefit to the small wind projects?

A. Yes. Infrastructure cost savings associated with the small wind projects can be extracted and inferred from the Company's response to DPU 7.6, DPU 23.10 and DPU 49.6.

Q. Do the infrastructure cost savings for the three small wind projects account for the variance observed by Mr. Peterson?

A. Yes. My analysis is shown in Confidential Exhibit RMP___(ARL-3R).

Q. What does your analysis show?

A. My analysis shows that the infrastructure cost savings associated with the three small wind projects (Seven Mile Hill II, Glenrock III, and McFadden Ridge I) approximately equals the cost per kW disallowance that Mr. Peterson proposes. (See Table 2 of Confidential Exhibit RMP___(ARL-3R)).

Q. Are there other reasons that there may be cost per kW variances?

A. Yes. Because each project is the result of a distinct resource acquisition decisions taken at different points in time, it is intuitive to expect that there would be variances for other reasons (e.g., the then-current market for major equipment, the then-current market for construction services, the then-current market for commodities like copper or steel and/or differences in permitting, legal or other

project management costs).

Q. What conclusion do you draw from your infrastructure costs savings analysis?

A. I conclude that there is no basis for the High Plains project or Rolling Hills project disallowances proposed by DPU witness Mr. Peterson and that the infrastructure cost savings and my analysis of that data bears this conclusion out.

Q. Are there other reasons that Mr. Peterson's prudence analysis should be rejected?

A. Yes. Mr. Peterson's prudence analysis should be rejected because it is based on the faulty premise that a prudent resource is one with the lowest initial cost. If this was indeed the applicable prudence criteria then the Company would never add a fuel efficient combined cycle combustion turbine ("CCCT") resource to its portfolio. Instead, the Company would always opt for a lower initial cost alternative, such as a simple cycle combustion turbine ("SCCT") or some other alternative with low initial cost. While it is indeed appropriate to choose a SCCT resource over a CCCT resource in certain circumstances based on operating characteristics and resource need, the Company would nonetheless perform that analysis on the basis of established utility economics for long-term resource additions. Not based solely on initial cost.

Q. Please describe how the Company evaluates the economics of long-term resource acquisitions?

A. The Company makes resource acquisition decisions based on the predicted net cost of energy and other value drivers over the life of the resource, regardless if

that resource is being constructed, owned and operated by the Company or a third party with the output sold under a power purchase agreement ("PPA"). Mr. Peterson's analysis judges prudence on the basis of an installed cost analysis and does not take into account the overall economics of the resource.

Q. Notwithstanding DPU's proposed disallowance associated with the Rolling Hills project and High Plains project, what conclusion did Mr. Peterson reach regarding the Company's cost to construct the Seven Mile Hill II, McFadden Ridge I, Glenrock III, Rolling Hills, and High Plains projects?

A. Mr. Peterson examined installed wind plant cost information available from the United States Department of Energy ("U.S. DOE") and concluded:

> "*Therefore, the Division cannot conclude that the level of the project costs, i.e. about* [redacted] *per kW, is out of line when compared with projects in other states.*" (Confidential information redacted).

Q. Has the company entered into PPAs with third parties where the resource acquisition decision was based on the cost of energy and not the installed cost of the resource?

A. Yes. There are two very recent examples. The Company's purchase of energy under the 99 MW Campbell Hill PPA and under the 200.2 MW Top of the World PPA.

Q. Is the Campbell Hill PPA included in this case?

A. Yes.

Q. Has any party taken the position that the Campbell Hill PPA is imprudent?

A. No. To the Company's knowledge, no party has taken an adverse position toward

the 99 MW Campbell Hill PPA.

Q. Please summarize the Company's position regarding the DPU's proposed disallowance for the Rolling Hills project of $9,083,448 and proposed disallowance for the High Plains project of $21,103,448.

A. The Company's position is that the Commission should outright reject the DPU's proposed $30,200,000 in disallowances. The proposed disallowances are based on a flawed "economy of scale theory" that is wholly incorrect and inapplicable as applied to the Company's large and small wind projects. DPU witness Mr. Peterson's "economy of scale theory" is flawed because the Company's smaller wind projects have infrastructure advantages that, indeed, DPU witness Ms. Zenger references in her testimony. Finally, Mr. Peterson introduces evidence that the Company's cost to construct the referenced wind projects was in line with that provided by the U.S. DOE. Therefore, the Company has met the prudence criteria established by the DPU through Ms. Zenger's testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes.